

Motor Fuel Taxation in Michigan

Presentation to a
Joint Meeting of the:

Senate Finance Committee
and
Senate Committee on
Transportation &
Infrastructure

March 15, 2022

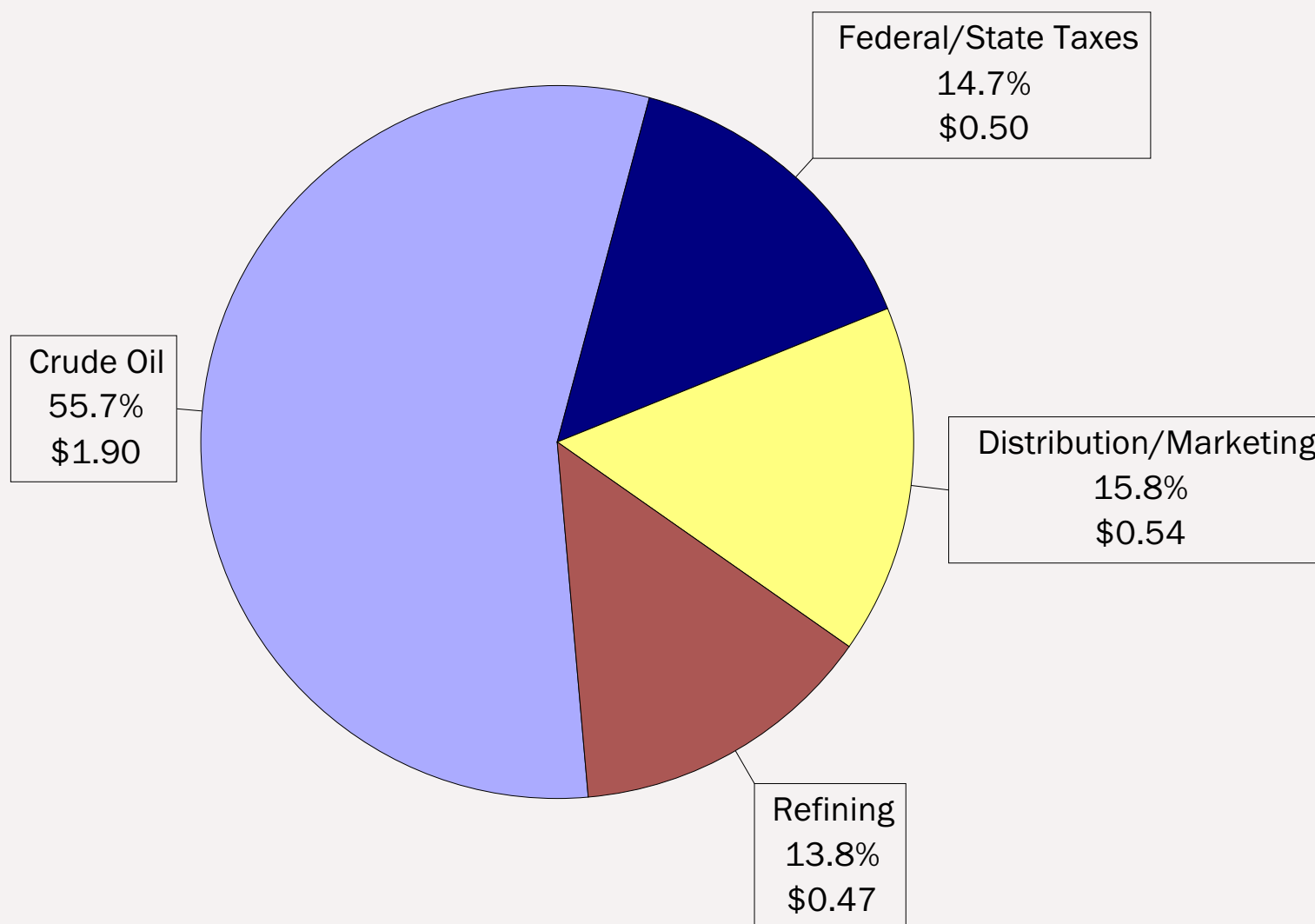
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Outline

- What's in the price of gas
- How Michigan taxes motor fuels
- Revenue and distribution
- Interstate/International comparisons

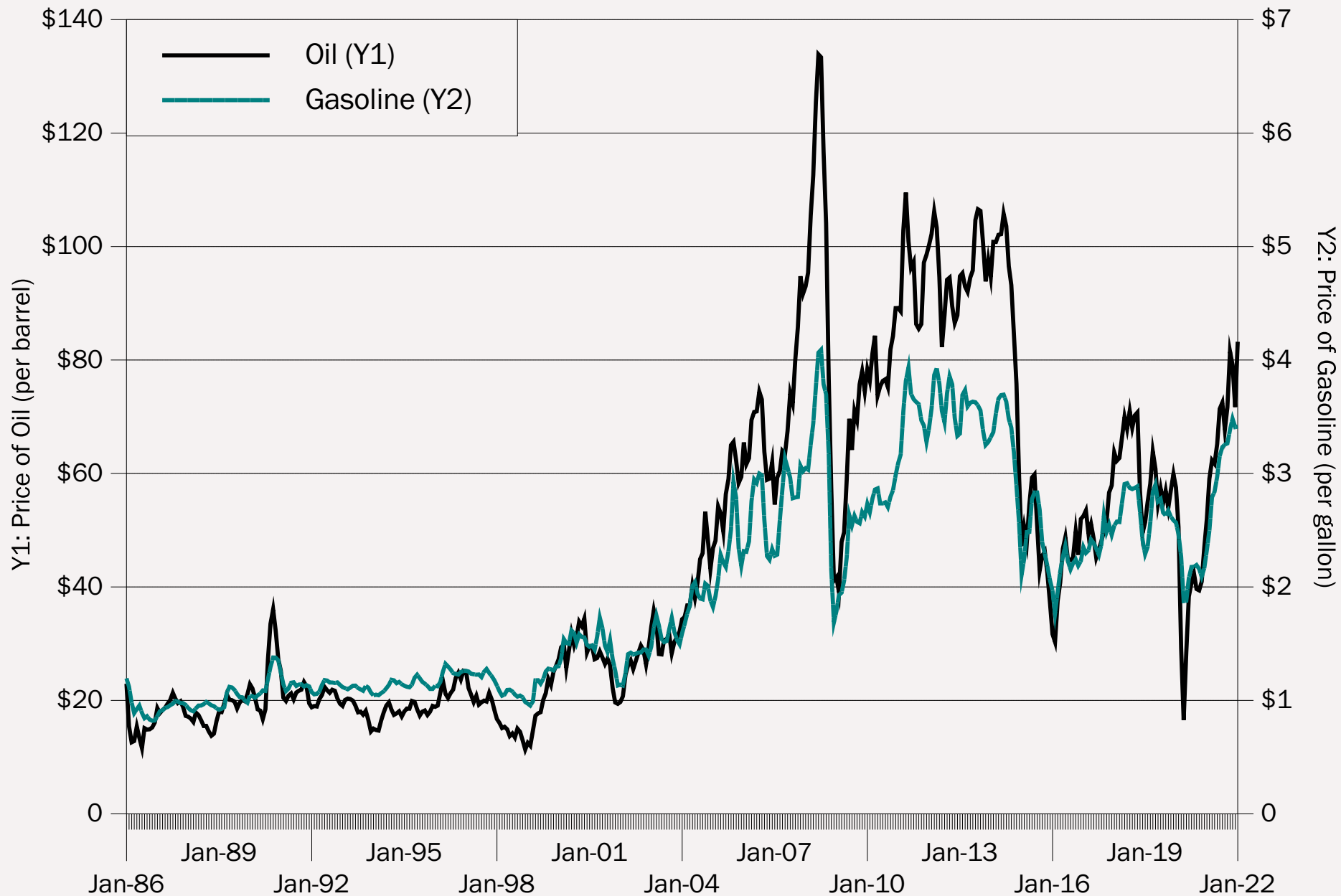
What Goes Into the Price of Gasoline?



Source: Energy Information Administration, U.S. Department of Energy.

Based on retail price of \$3.41 per gallon. (National average for regular gasoline in January 2022.)

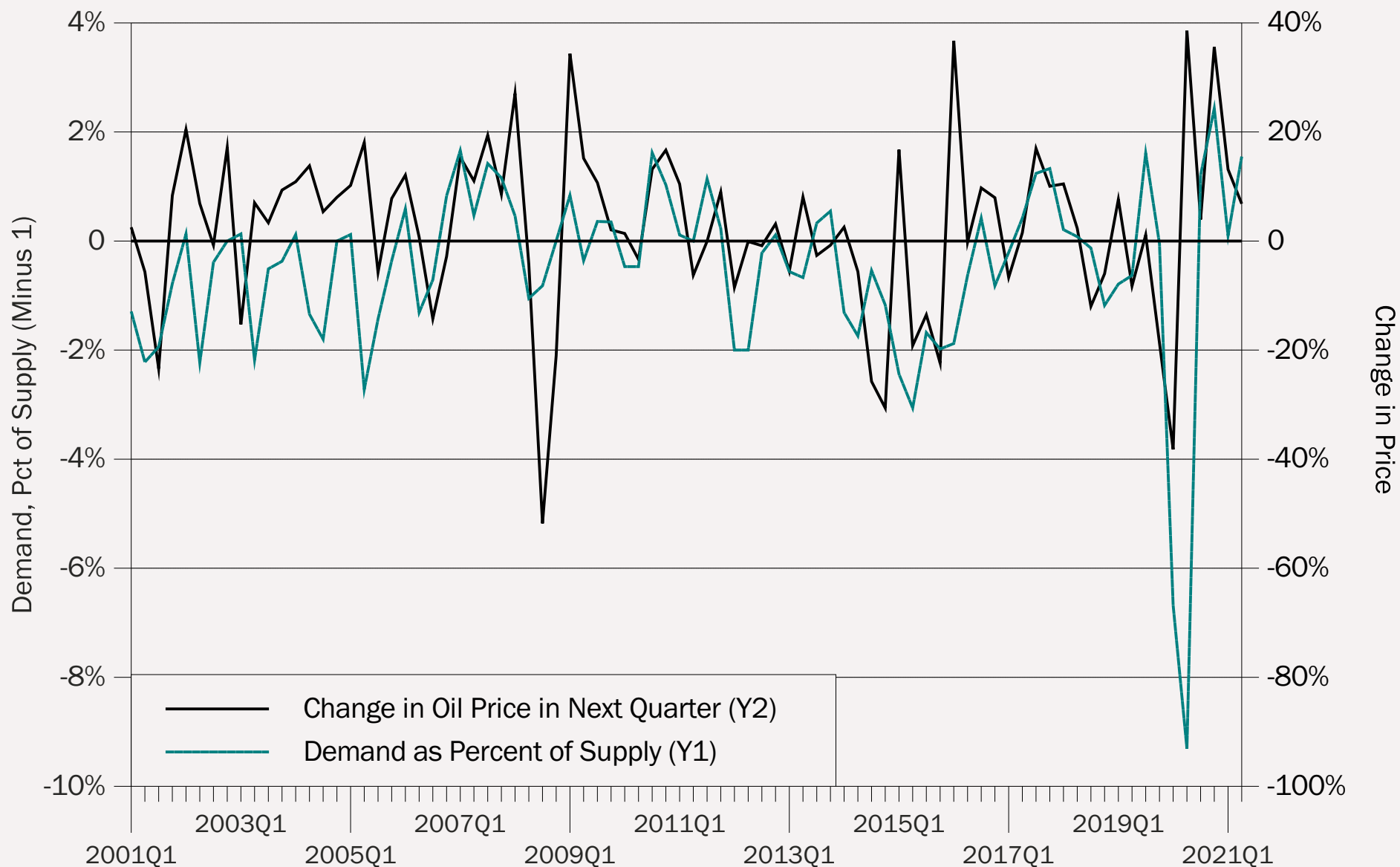
Oil Prices Drive Gasoline Prices



Source: Energy Information Administration, U.S. Department of Energy.

Oil Prices Track Changes in Global Supply and Demand

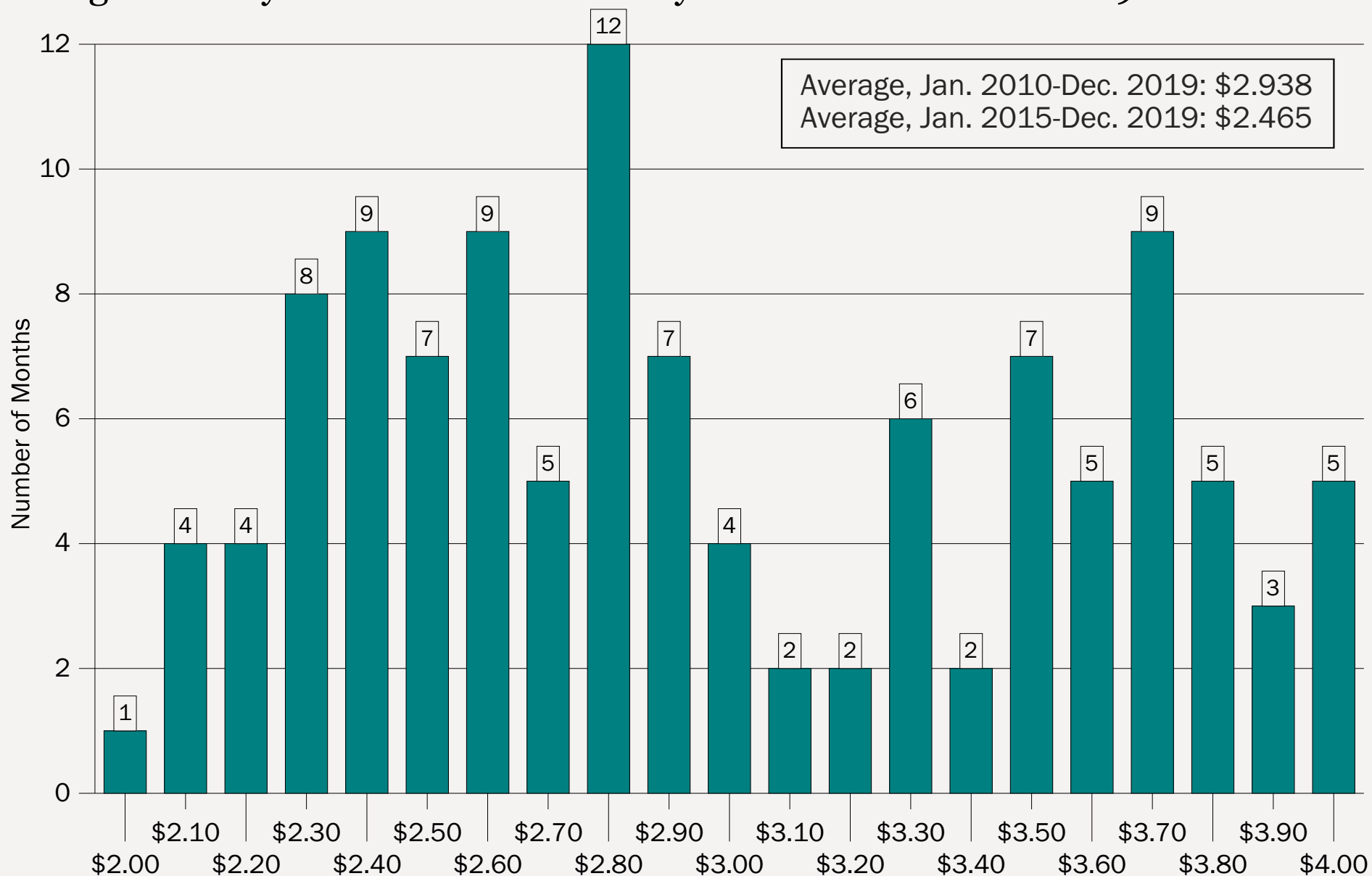
Shortages Drive Prices Higher , Surpluses Push Prices Lower



Sources: Organization of Petroleum Exporting Countries; International Monetary Fund;
FRED, Federal Reserve Bank of St. Louis.

Gasoline Prices are Volatile

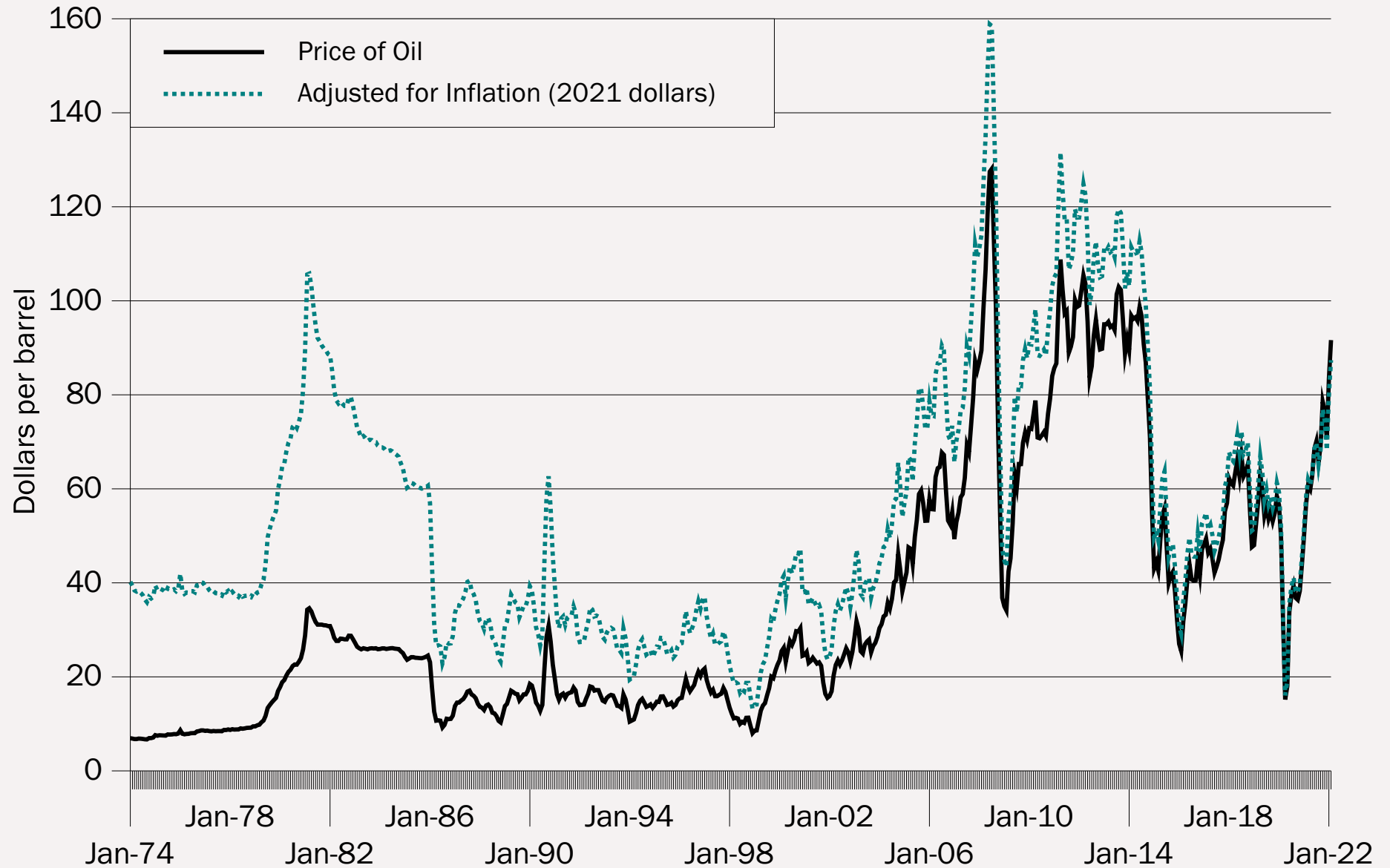
Average Monthly Prices Between January 2010 and December 2019



Source: Automobile Association of America.

Domestic Crude Oil Prices

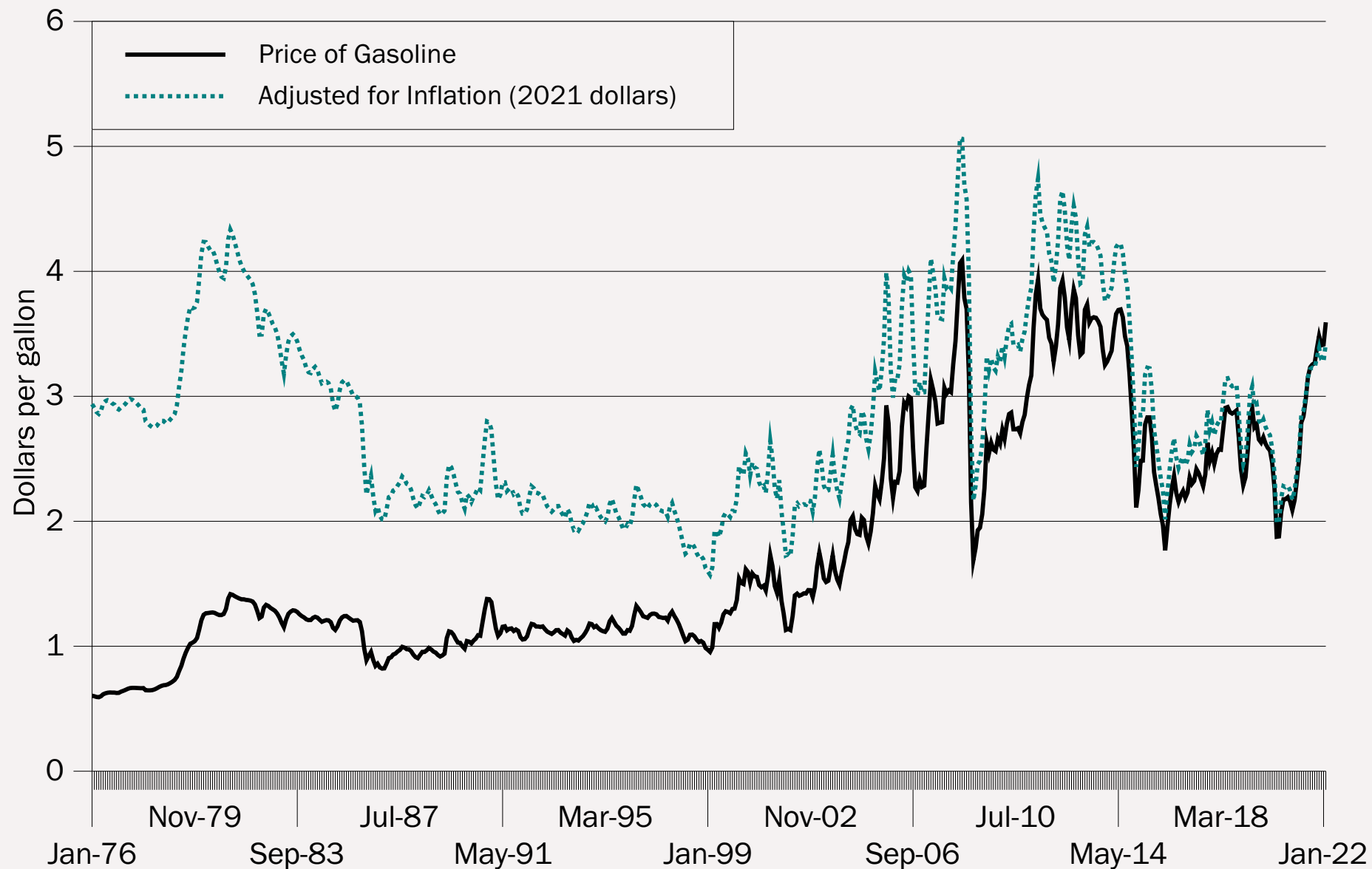
Actual and Adjusted for Inflation



Sources: Energy Information Administration; Bureau of Labor Statistics, U.S. Department of Labor

Retail Gasoline Prices

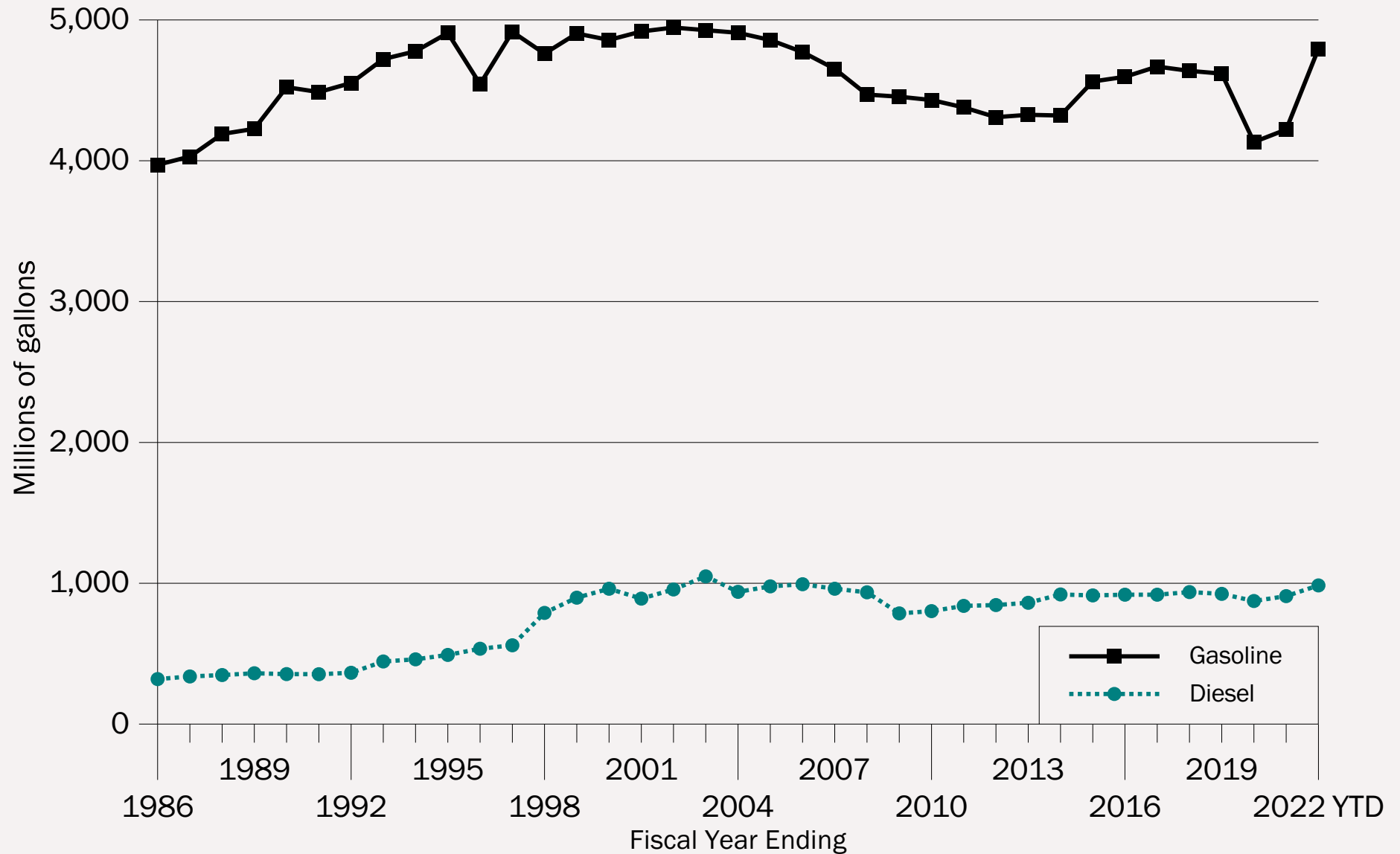
Actual and Adjusted for Inflation



Source: Bureau of Labor Statistics, U.S. Department of Labor

Motor Fuel Consumption in Michigan

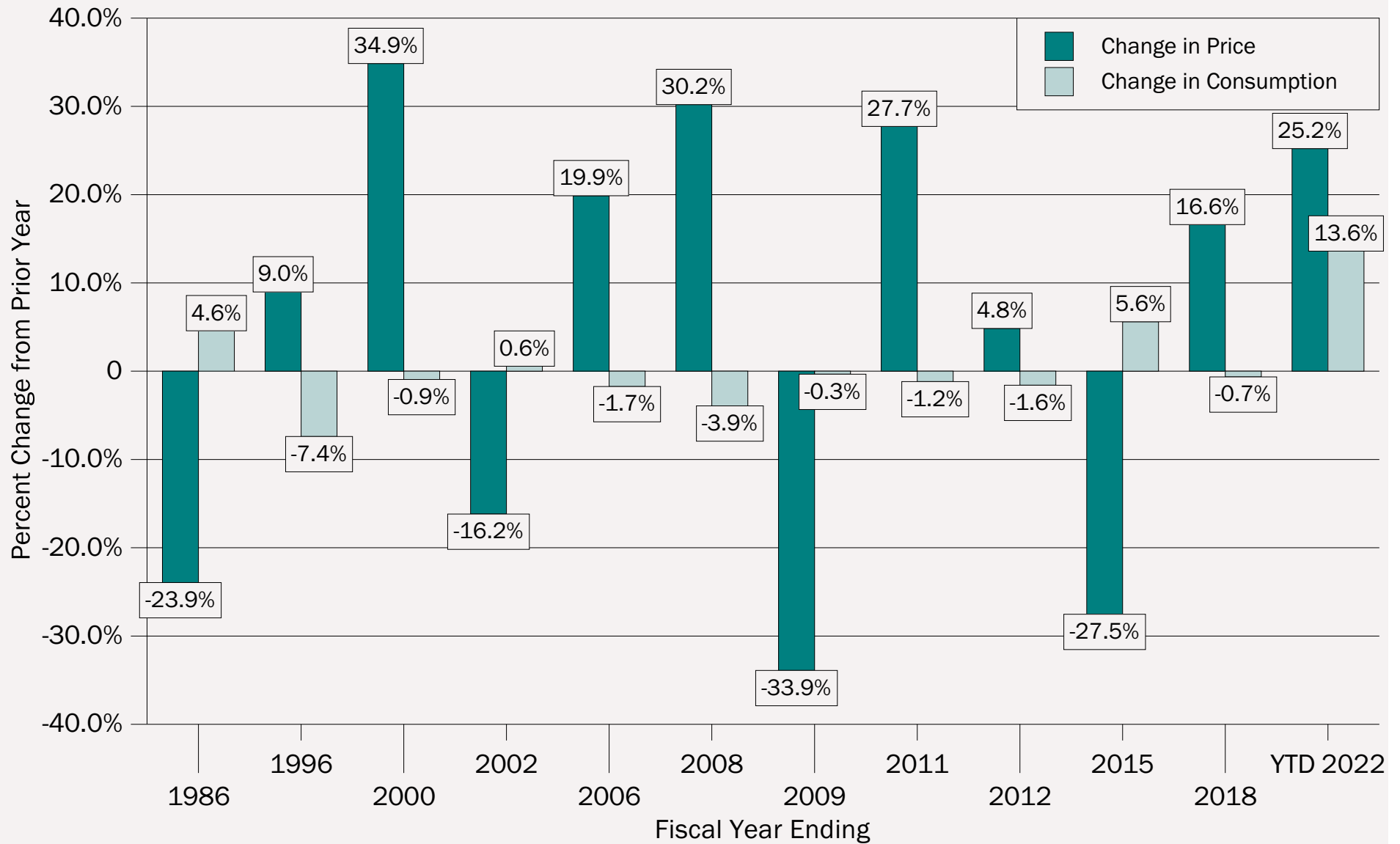
Fuel Consumption Dominated by Gasoline



Source: Senate Fiscal Agency

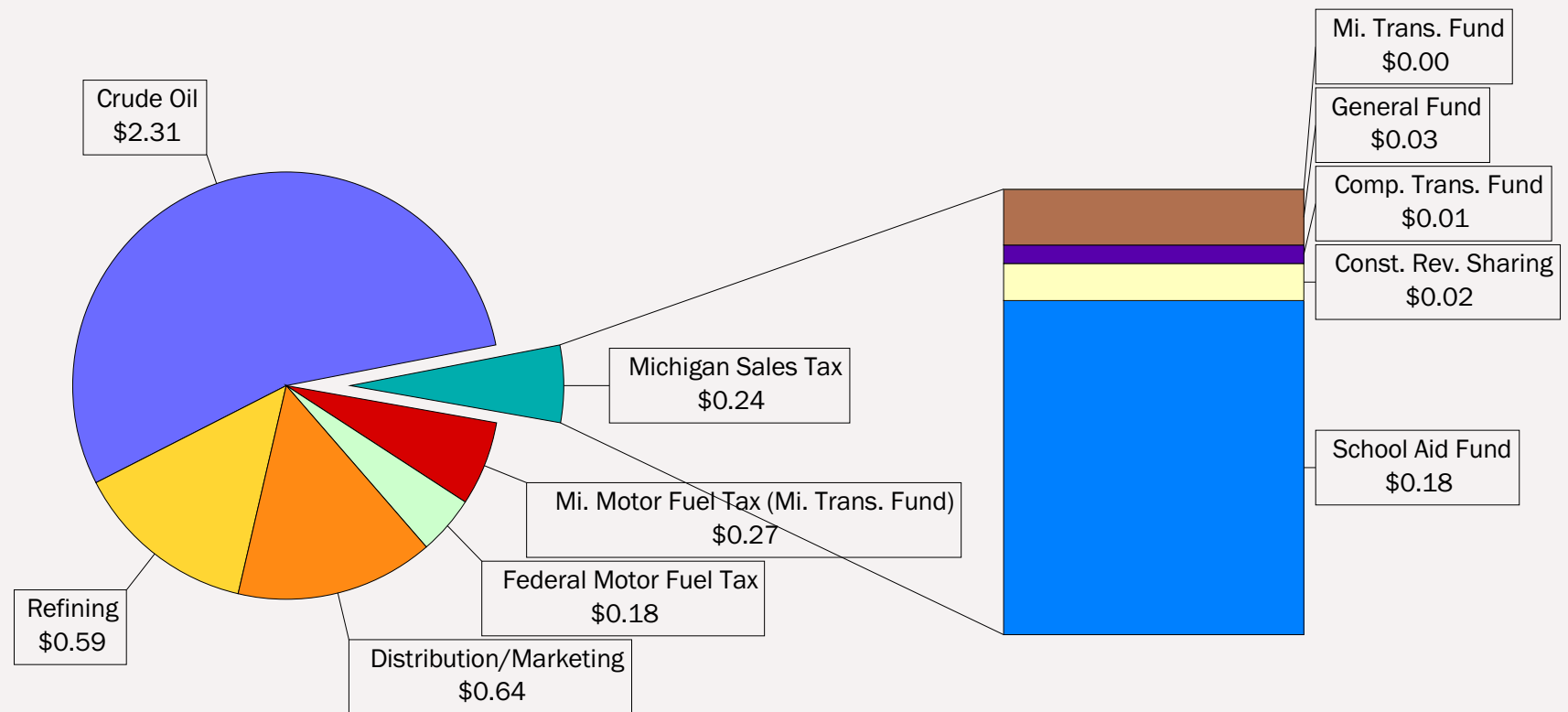
Michigan Consumers' Reaction to Price Changes

2022 Represents an Economic Anomaly



Sources: Senate Fiscal Agency calculations on data from AAA and DTMB.

Cost Components in the Price of a Gallon of Gasoline in Michigan



Source: Energy Information Administration, U.S. Department of Energy, Automobile Association of America, and Senate Fiscal Agency calculations. Based on retail price of \$4.238 per gallon (Michigan average for regular gasoline on March 14, 2022).

Michigan Taxes on Motor Fuels

■ Gasoline

- ▶ Increased from 19 cents per gallon to 26.3 cents on January 1, 2017
- ▶ Inflationary adjustments began January 1, 2022; increased rate to 27.2 cents per gallon

■ Diesel

- ▶ Increased from 15 cents per gallon to 26.3 cents on January 1, 2017
- ▶ Inflationary adjustments began January 1, 2022; increased rate to 27.2 cents per gallon

■ Sales and Use taxes

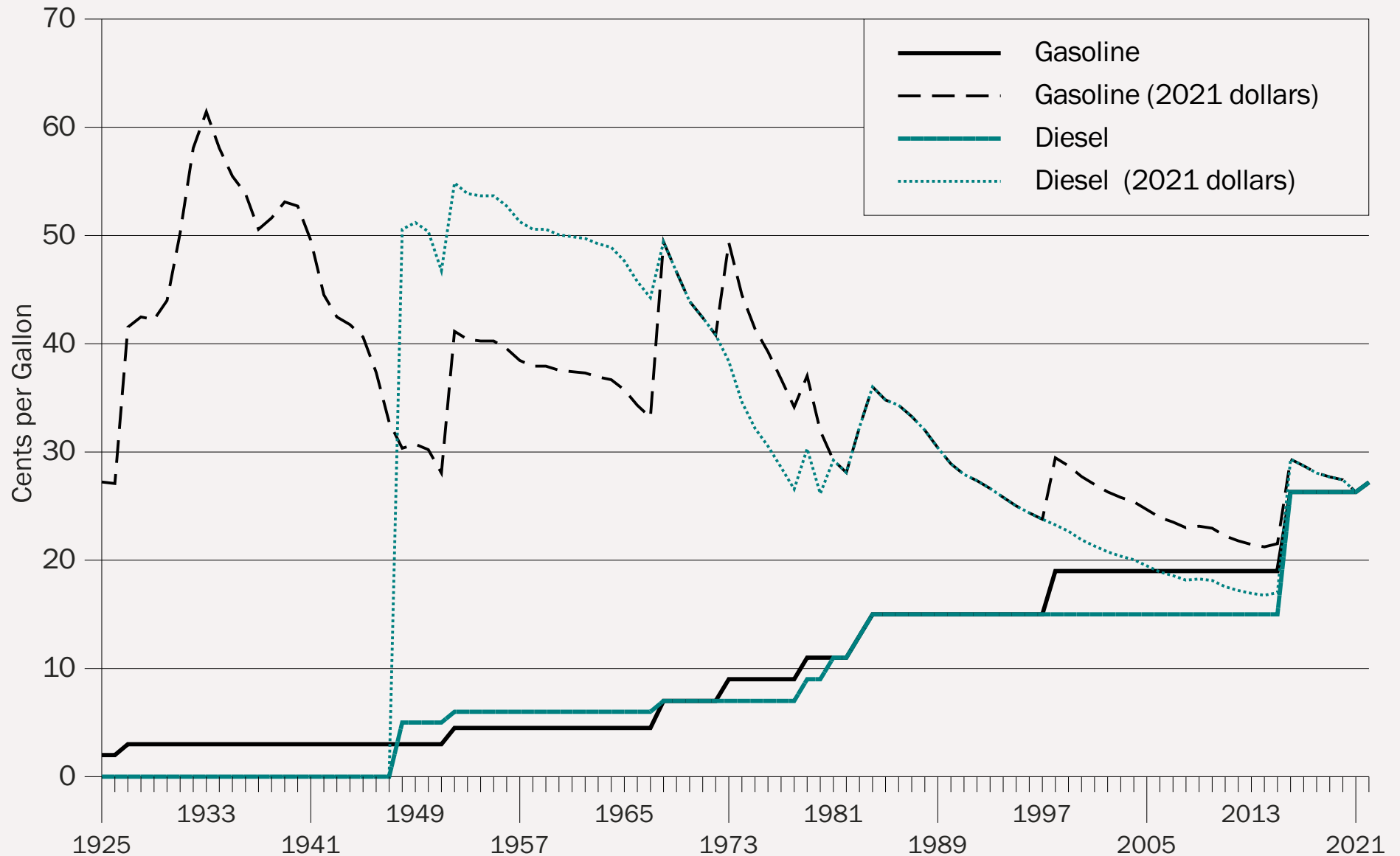
- ▶ 6% rate, based on price before Michigan motor fuel taxes

■ Revenue and distribution

- ▶ Gasoline and Diesel fuel taxes distributed to the Michigan Transportation Fund
- ▶ Sales Tax distributed according to the Michigan constitution and statute
 - 73.3% of Sales Tax to the School Aid Fund
 - 10% to constitutional revenue sharing
 - 27.9% of rate of 1% to the Comprehensive Transportation Fund
 - Remainder to the General Fund

History of Michigan Gas and Diesel Fuel Tax Rates

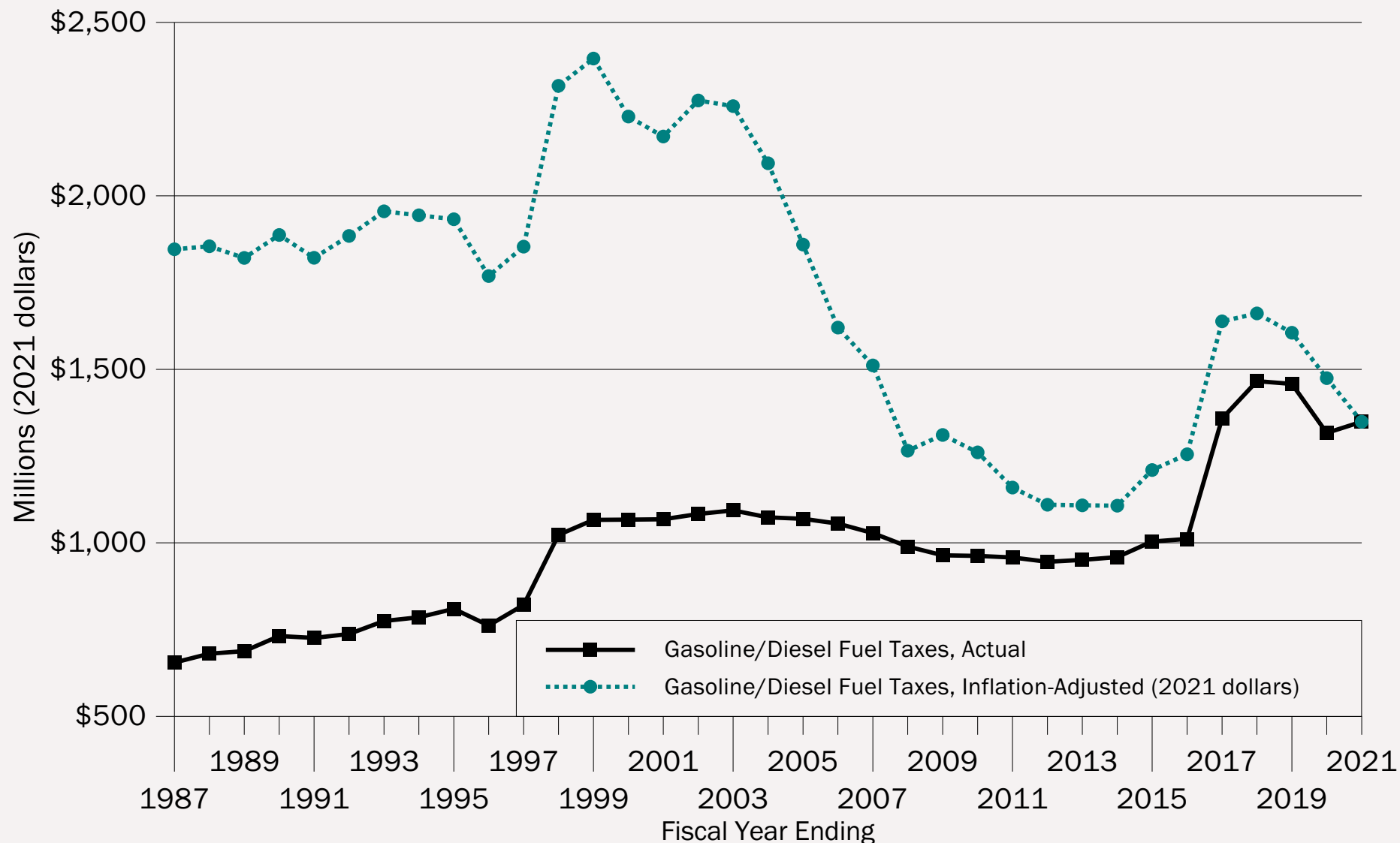
Prior to 2022, Per Unit Rates Caused Buying Power to Erode Against Inflation



Sources: Senate Fiscal Agency; Bureau of Labor Statistics, U.S. Department of Labor.

Combined Gasoline/Diesel Fuel Tax Revenues

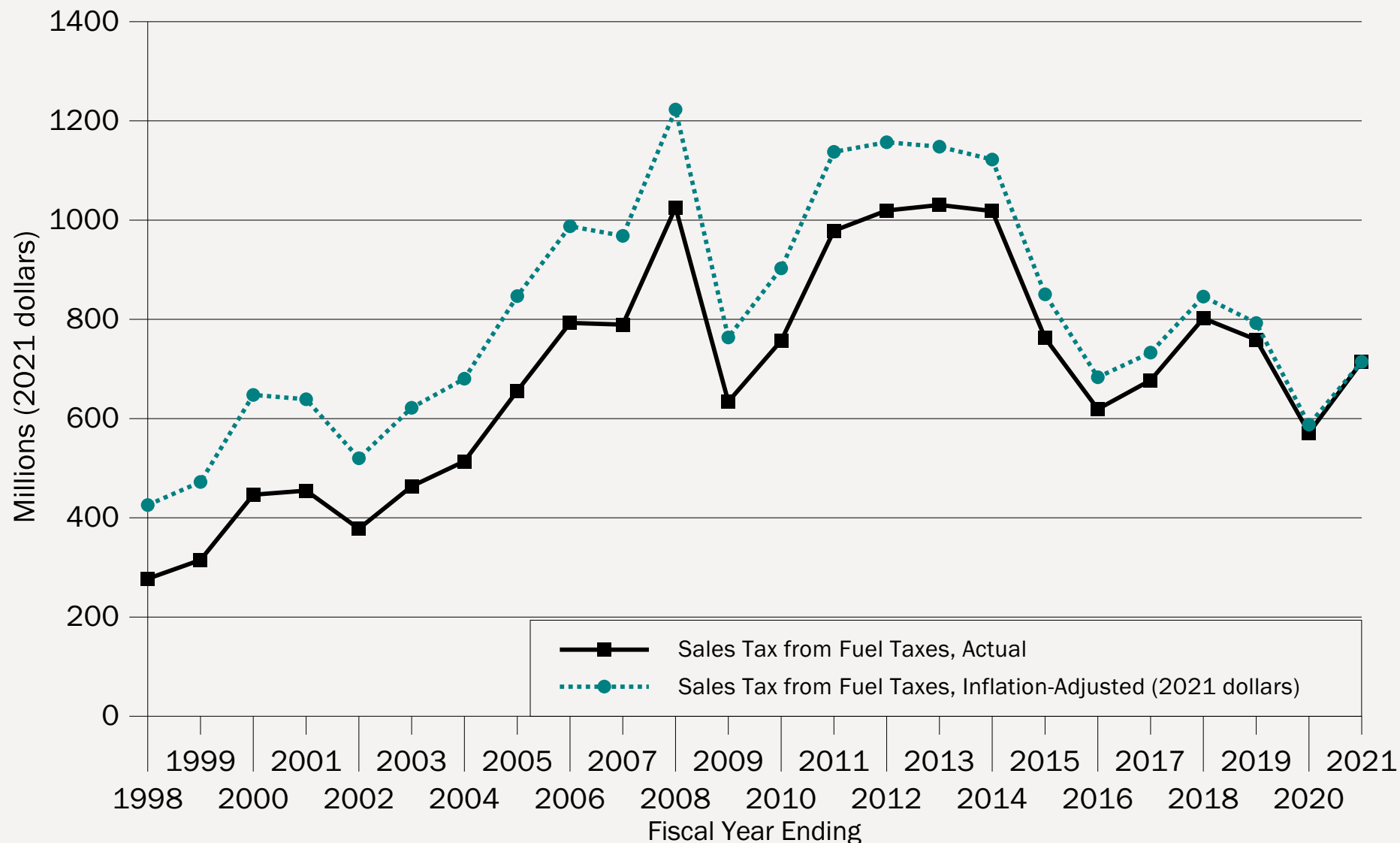
Actual and Adjusted for Inflation



Source: *Comprehensive Annual Financial Report*, various issues, Michigan Dept. of Tech., Mgt. & Budget.
Inflation based on Producer Price Index for Inputs to Highway/Street Construction, Bureau of Labor Statistics

Estimated Sales Tax Revenue from Fuel Sales

Actual and Adjusted for Inflation



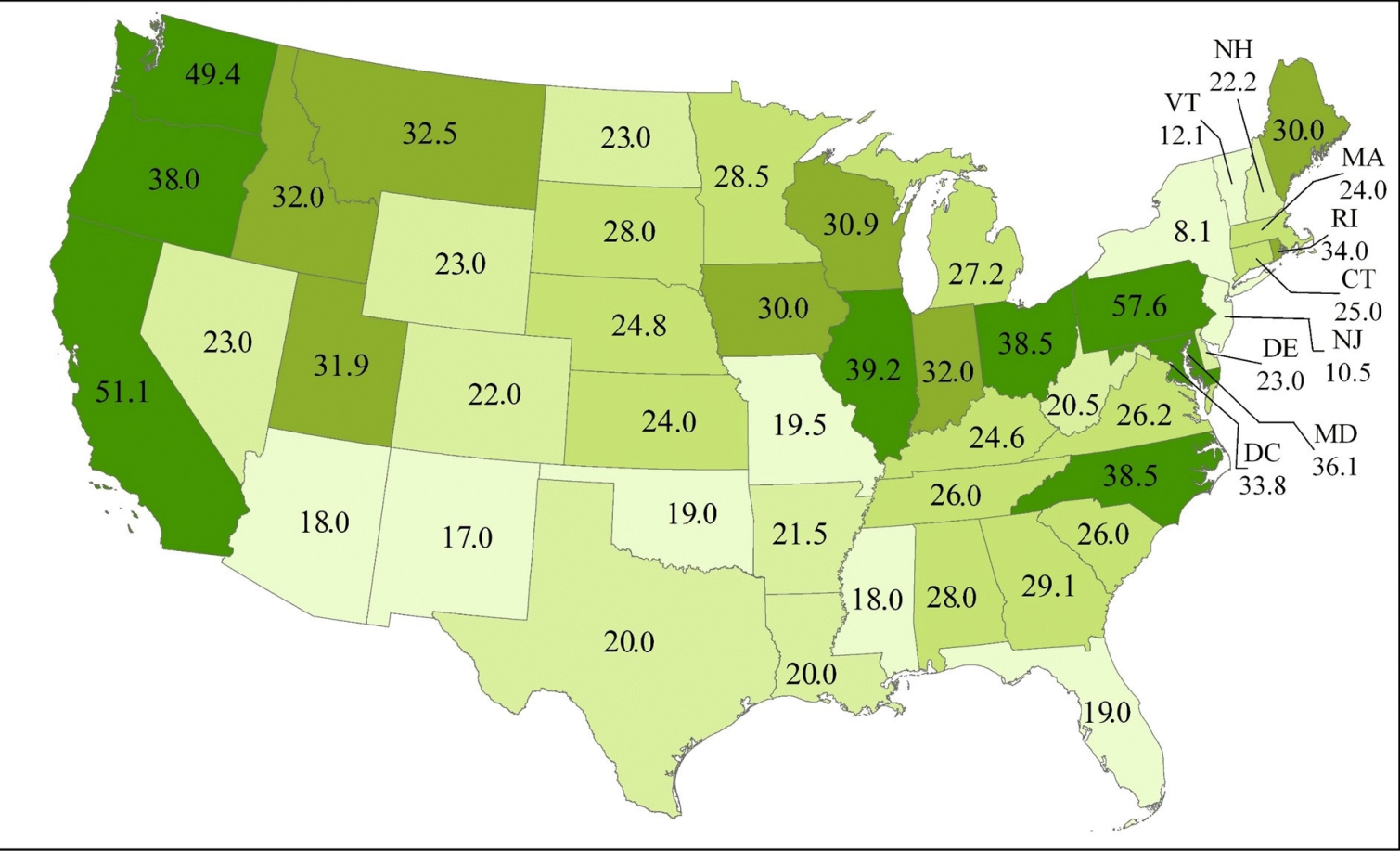
Source: *Comprehensive Annual Financial Report*, various issues, Michigan Dept. of Tech., Mgt. & Budget.
Inflation based on Detroit Consumer Price Index, Bureau of Labor Statistics.

Average Tax Burden

- The average Michigan driver consumes approximately 625 gallons per year
 - ▶ Average miles driven per Michigan driver in 2019: 14,308
 - ▶ Average fuel economy in 2020: 22.9 miles per gallon
- Annual tax costs for average driver
 - ▶ Michigan motor fuels tax (2022 rate): \$170
 - ▶ Michigan sales tax on motor fuel (assuming \$4.238 per gallon, the Michigan average on March 14, 2022): \$140

State Motor Fuel Rates - Gasoline

As of January 1, 2022



Gasoline Excise Tax

- Less than 19.9
- 20.0 - 23.9
- 24.0 - 29.9
- 30.0 - 35.9
- Greater than 36.0

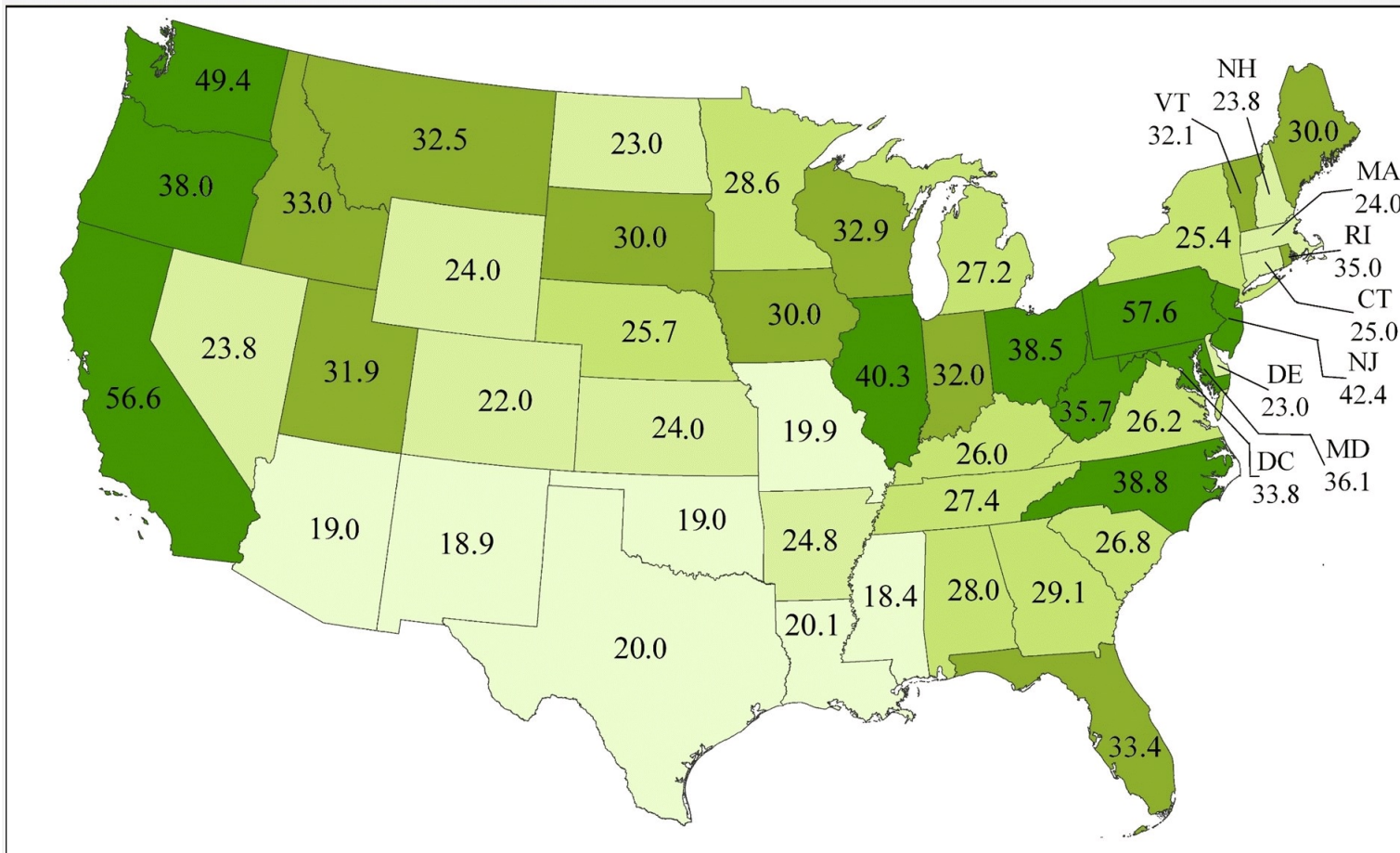
Quick Facts

Avg: 26.7, United States
Min: 8.0, Alaska
Max: 57.6, Pennsylvania
The Federal government levies a gasoline excise tax of 18.3 per gallon.

Source: Compiled by Federation of Tax Administration from various sources.
Notes: All figures are in U.S. cents. Data shown only include the primary excise tax and do not include all taxes and fees a state may levy on gasoline.

Total State Motor Fuel Rates and Fees - Gasoline

As of January 1, 2022



Gasoline Total Taxes and Fees

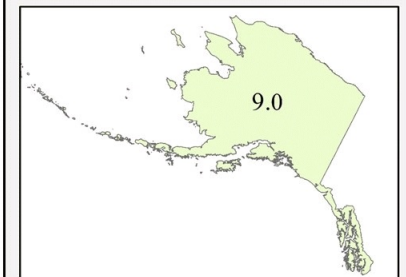


Quick Facts

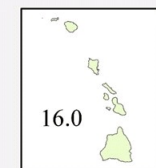
Avg: 29.2, United States
 Min: 9.0, Alaska
 Max: 57.6, Pennsylvania

The Federal government levies a gasoline excise tax of 18.4 per gallon.

Alaska



Hawaii

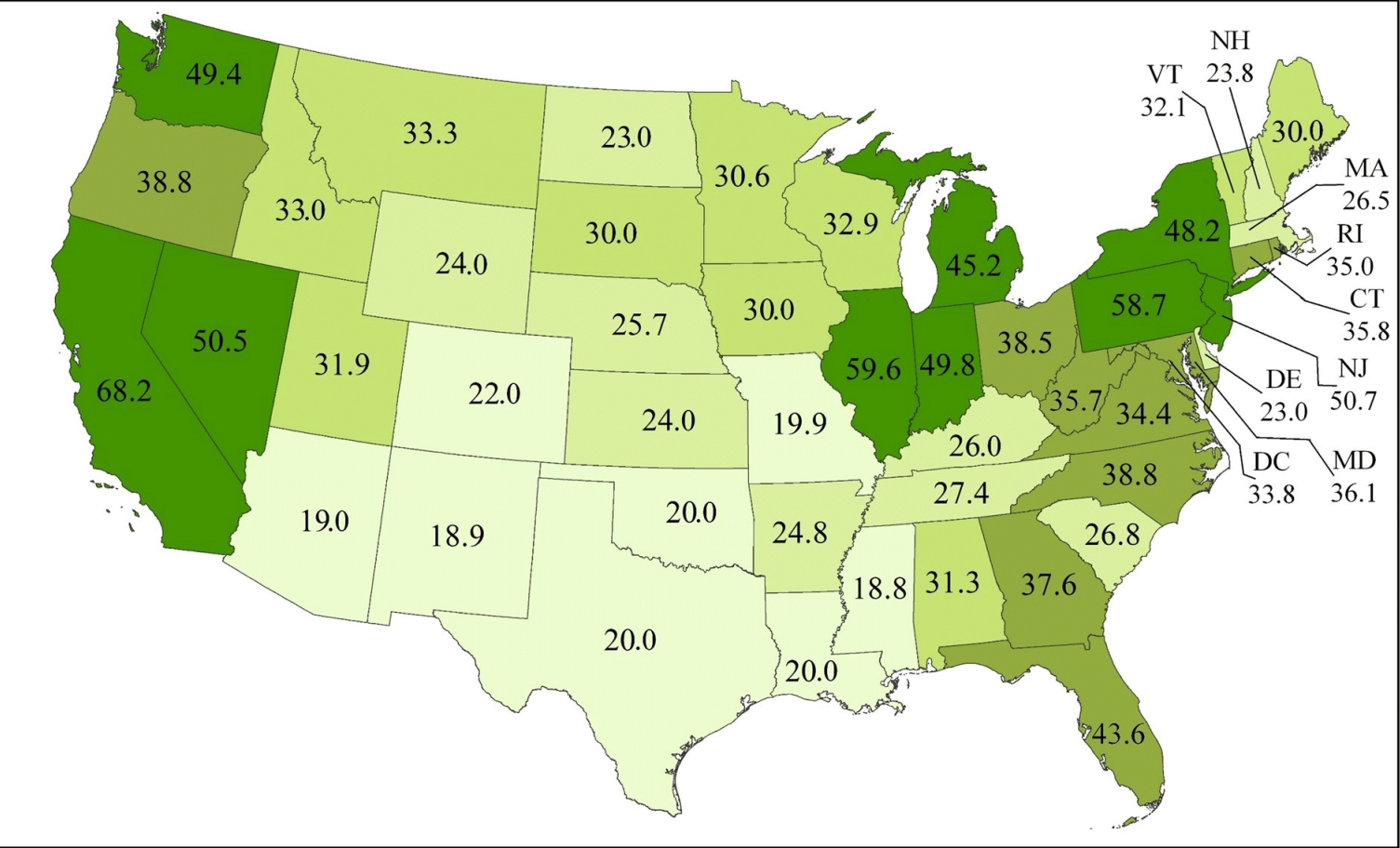


Source: Compiled by Federation of Tax Administration from various sources.

Notes: All figures are in U.S. cents. Data shown include the primary excise tax plus other taxes and fees a state may levy on gasoline other than locally levied fuel taxes and state/local sales taxes collected at the retail level.

State Motor Fuel Rates and Fees - Gasoline

As of January 1, 2022



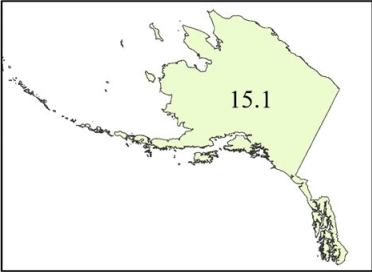
Gasoline Total Taxes and Fees

- Less than 22.8
- 22.9 - 27.4
- 27.5 - 33.9
- 34.0 - 44.7
- Greater than 44.8

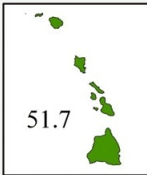
Quick Facts

Avg: 33.4, United States
Min: 15.1, Alaska
Max: 68.2, California
The Federal government levies a gasoline excise tax of 18.4 per gallon.

Alaska



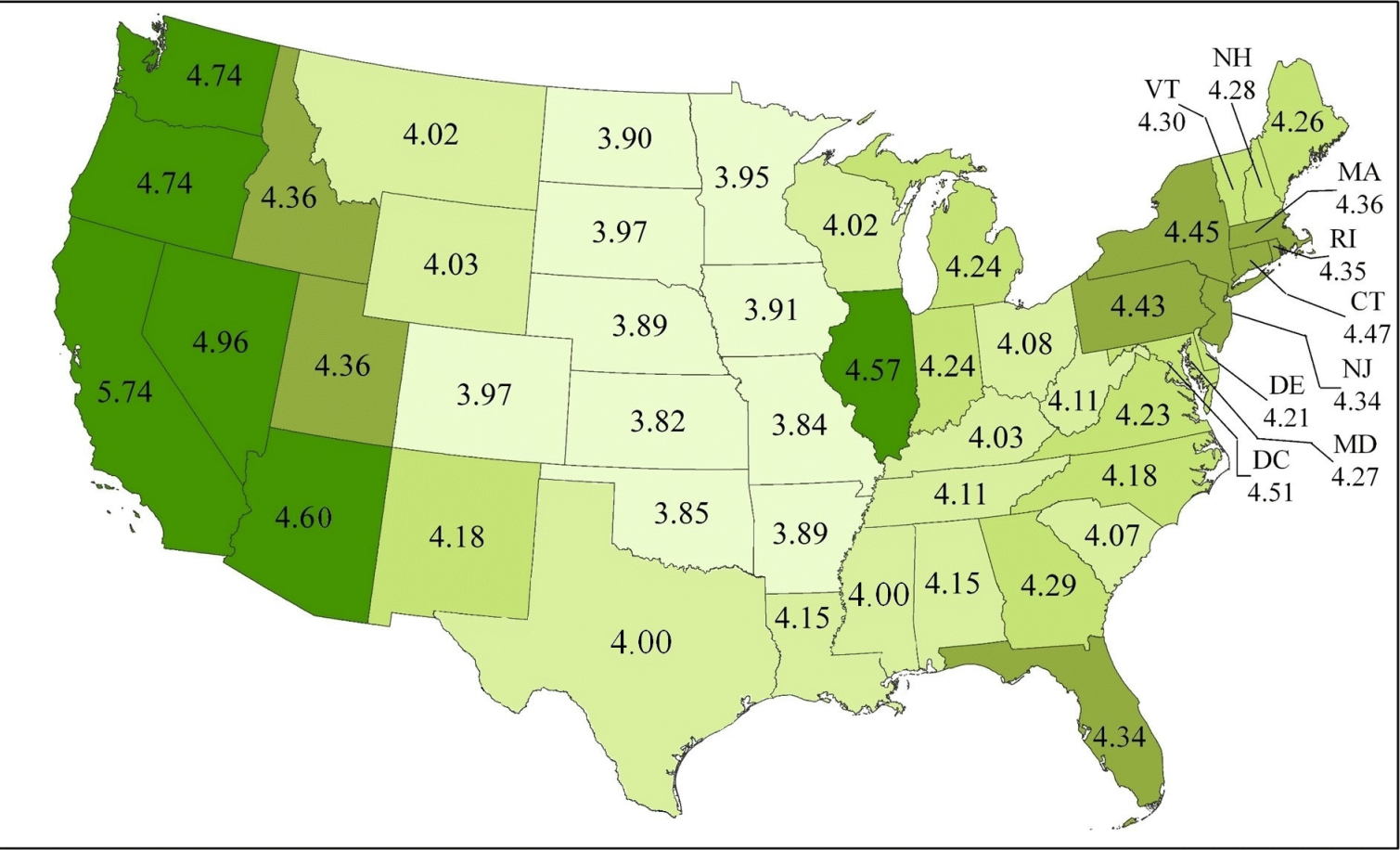
Hawaii



Source: American Petroleum Institute.
Notes: All figures are in U.S. cents. Data shown include the primary excise tax plus other taxes and fees a state may levy on gasoline. Sales taxes computed using average prices reported by AAA as of January 1, 2022.

Average Price Per Gallon – Gasoline

As of March 14, 2022



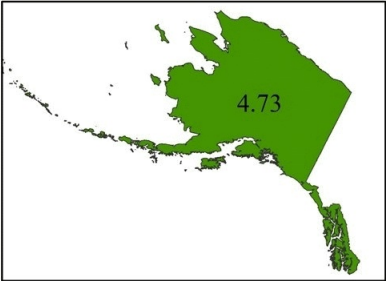
Ave. Price of Gasoline

- Less than 3.99
- 4.00 - 4.15
- 4.16 - 4.30
- 4.31 - 4.49
- Greater than 4.50

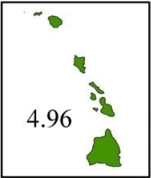
Quick Facts

Avg: 4.33, United States
Min: 3.82, Kansas
Max: 5.74, California

Alaska



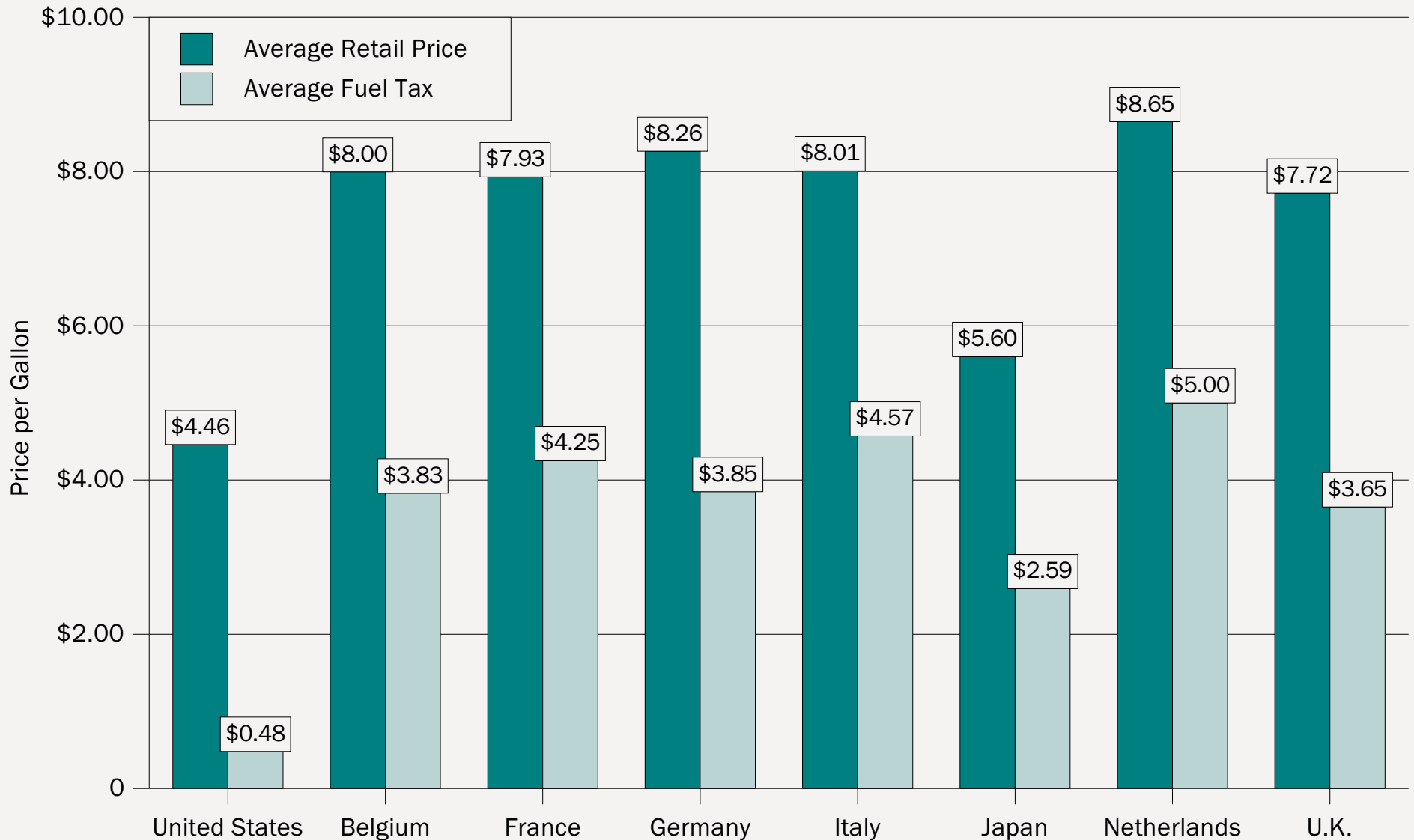
Hawaii



Source: American Automobile Association (AAA).
Notes: All figures are in U.S. dollars.

Retail Gasoline Prices and Tax Rates

Major OECD Countries Compared



Sources: Energy Information Administration, U.S. Department of Energy (Tax rate data are from December 2020.);
GlobalPetrolPrices.com (Prices from March 7, 2022.)

Potential Ways Policymakers Could Lower Fuel Prices in the Short Term

- Eliminate/Suspend Federal Motor Fuel Tax
 - Affects revenue to the Federal Highway Trust Fund
- Eliminate/Suspend State Fuel Taxes
 - Affects revenue to the Michigan Transportation Fund
 - Potential bonding implications
- Exempt/Suspend Sales Taxes on Motor Fuels
 - Affects revenue to the:
 - School Aid Fund
 - Constitutional Revenue Sharing
 - Comprehensive Transportation Fund
 - General Fund
 - Potentially offset by increased spending on other taxable items
- Petroleum Reserve
 - Changes supply-side of pricing in spot markets
- Any price-based approach will be partially offset by changes in quantity demanded

Note: This list is not intended to be comprehensive of all possible approaches, nor does it advocate for any policy change or type of change.